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August 27, 2004

VIA ELECTRONIC FILING

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Room TWB-204
Washington, D.C. 20554

RE: NOTICE OF EX-PARTE COMMUNICATION

***In the Matter of Section 272(f)(1) Sunset of BOC Separate Affiliate and Related Requirements*, WC Docket No. 02-112**

Dear Ms. Dortch:

SBC Communications Inc. hereby provides on the record in the above captioned proceeding the more detailed information (see Attachment A) requested by Wireline Competition Bureau staff during an August 3, 2004 *ex parte* meeting in which the parties discussed generally the nature of the telecommunications enterprise market as well as how SBC markets and sells to enterprise customers.

In accordance with section 1.1206 of the Commission's rules, this letter is being filed in the above referenced proceeding via the Commission's ECFS system. Should you have any questions regarding the attached, please do not hesitate to contact me by whatever means are most convenient for you.

Sincerely,

Brett A Kissel

cc: Ben Childers
Darryl Cooper
William Cox
William Dever
William Kehoe
Michael Carowitz

THE ENTERPRISE MARKET

In order to provide voice and data services to enterprise customers on a nationwide basis (e.g., Wide Area Networks or WANs), a service provider, either on its own or in combination with other service providers, must, as a practical matter, at the very least have (1) cost competitive network/facilities; (2) an effective sales force; and (3) institutional credibility in the industry/marketplace. Even though SBC[1] is developing these capabilities, it still faces various challenges with respect to these areas primarily due to the structure of the enterprise market, and to a lesser extent due to other factors outside its control.

Description of Enterprise Market

The enterprise market is generally viewed as including large companies with multiple locations and numerous employees that have a need not only to obtain voice services, but also to connect their business locations together to share and exchange data and information. The enterprise market is increasingly characterized by a blurring of the lines between telecommunications (voice communications and data transport) and information technology (IT) (desktop and associated applications) services. These large business customers typically prefer to out-source/out-task management of these functions in order to focus on their core products and services. In other words, they are looking to one service provider to manage this entire set of communications and technology services as one solution, including coordination of connecting the business locations to one another and to the world.

From a sales and marketing perspective, SBC defines the enterprise market as business customers that spend at least $48,000 a year on SBC services. Generally these customers will have at least 250 employees and typically will have multiple locations. SBC views the enterprise market as a substantial growth opportunity throughout the foreseeable future and is working toward becoming a full-service competitor to the current market leaders such as AT&T, MCI and Sprint.

<u>Network/Facilities</u>
Although SBC continues to establish relationships with other service providers or obtain its own facilities to expand its geographic reach in order to serve enterprise customers, traditional providers to that segment still have an advantage in the market today for various reasons.

The service provider must be able to connect the customer's business locations via a contiguous end-to-end network (e.g., Frame/ATM or IP VPN) by securing transmission capabilities from each business location to a serving wire center (switch or POP) and from there to the appropriate network gateway. SBC necessarily partners with various data transport providers (e.g., WilTel or New Edge Networks) in order to deliver traffic to customer business locations where SBC does not already have a presence/facilities. With respect to local access, in addition to providing its own local access in-region as the ILEC, SBC obtains local access out-of-region from the ILEC and from itself in the 30 markets in which it competes as a CLEC. SBC has developed, through partnerships and other similar types of arrangements, the capability to serve enterprise customers with business locations in approximately 99 percent of the LATAs in the U.S.

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[1] As used herein, "SBC" refers to the various service-providing subsidiaries and affiliates of SBC Communications Inc.

However, traditional providers of nationwide Wide Area Networks currently maintain a competitive advantage based primarily on volumes established prior to the entry of the RBOCs in the inter-lata market (inter-lata communications being a critical component to the overall package demanded by these customers). In particular, because they acquired market share leadership prior to the entry of competitors with similar capacities for national and international reach, they can negotiate better prices for local access, international traffic and filling out any "gaps" in their interexchange nationwide networks. In addition, a factor that determines success in this market is the quality and breadth of the nationwide Wide Area Network provider's e-commerce capabilities. For example, the deployment of Single Web Portals make it easier for an enterprise customer to order products and services, report and check the status of problems as well as query and pay bills. This is an area in which traditional nationwide Wide Area Network providers have an advantage in the market today.

Many enterprise customers also require international voice and data services and prefer to purchase their U.S. and non-U.S. services together to get the best overall price and service. The international networks of traditional providers retain an advantage given their substantial head-start in serving this market. Recent IDC survey data shows that the majority (44.6 percent of respondents) of multinational frame relay customers purchase from one provider as opposed to customers purchasing from two or more providers (17.7 percent of respondents).

As would be expected, SBC is initially focusing on business customers headquartered, and consequently with more business locations, in its region (such as hospitals, banks and state governments). Nevertheless, for various reasons, including better credibility and name recognition, SBC still must aggressively compete to win these contracts due to (1) the reluctance of some existing customers to switch to another service provider for all or part of a complex interstate/international network, (2) competition for the less complex customer solutions from nation-wide providers, such at AT&T, as well as regional niche players (who compete primarily by combining SBC POTS lines with their own T-1 integrated access) such as TDS Metrocom, Allegiance (now part of XO Communications), Birch Telecom and McLeodUSA, and (3) the need for SBC to develop diverse robust access and facilities outside of its traditional footprint and internationally.

<u>A Sales Force</u>

A service provider must have a sales force with the appropriate training and experience to package and sell the types of "solutions" needed by enterprise customers. As a predominantly local/regional provider in the past, SBC's sales force has traditionally sold "pipes" (e.g., access lines) to a business customer's telecom manager. At the same time, other competing providers who have extensive experience in serving enterprise customers have traditionally established long-standing customer relationships with the Chief Information Officers (CIOs) or the equivalent of these same companies. CIOs will bring problems they need solved to their "partners," not necessarily their "vendors." There is a competitive advantage for those service providers who have already established this kind of problem-solving "partner" relationship with customers. SBC has hired and trained a portion of its sales force to be able to sell the more complex managed national data solutions, but it will take time to establish the types of customer relationships that the traditional providers of nationwide Wide Area Networks have today.

Credibility

When competing for the business of enterprise customers, SBC as a relative newcomer in the enterprise market must overcome the level of credibility that some of its competitors have developed in this market over the course of many years.

Even where SBC is able to provide the same or better service than competitors, it is still at a disadvantage because of its status as a newcomer in the enterprise space. Enterprise customers are, quite naturally, risk averse when it comes to their communications systems and providers. Absent a negative experience with their existing provider, they are not easily persuaded to switch providers. They are especially skeptical of switching to a provider that does not have substantial experience provisioning the type of national and international service they are seeking. As a new entrant in the national enterprise market, SBC must overcome this skepticism. Consistent with this skepticism, many enterprise customers in general are simply not willing to switch providers because they are comfortable with their current arrangement from a technological standpoint and/or from a financial standpoint the costs may be prohibitive for them to switch. Outside its service territory, SBC also lacks the degree of name recognition that is currently enjoyed nationally as well as globally by some of its competitors.

Most important to CIOs, the service provider must be able to manage the entire customer solution – i.e., to see the network from end-to-end. In order to do this, SBC must either be the service provider on both ends of the customer's network or develop the capability to perform these functions in conjunction with its partners (i.e., other service providers with which SBC has a contractual relationship to carry traffic on its behalf). SBC continues to improve its ability to provide complete end-to-end monitoring of an enterprise customer's network, but its competitors have the advantage of historical volumes and partnerships upon which to build these capabilities.

The importance to enterprise customers of a provider that has experience in provisioning and operating the kind of network they seek explains why service providers continually publicize enterprise customer "wins" in various contexts, such as investor reports and marketing materials. Although the frequency of SBC's customer wins is not yet at the level of the largest players in the enterprise market, such as AT&T and MCI, SBC did report the following in its second quarter investor briefing:

- A $100 million, three-year contract to provide services to Texas government agencies and schools.
- A three-year contract with CB Richard Ellis, a commercial real estate firm, to provide data network and managed services to more than 100 offices nationwide.
- A multitiered contract to provide voice and data services, including Network-Based VPN (NVPN), for 182 regional offices and retail locations of glass maker Vitro America.
- A three-year contract with UMB Bank, which operates 156 banking centers in Missouri, Illinois, Colorado, Kansas, Oklahoma and Nebraska.
- A contract with San Diego-based wholesale mortgage banker American Mortgage Network (AmNet), a wholly owned subsidiary of AmNet Mortgage, Inc. to provide SBC PremierSERVSM IP-VPN Service to connect AmNet headquarters with 19 branches.
- A three-year contract with The Neiman Marcus Group, which operates 35 Neiman Marcus stores and two Bergdorf Goodman stores.

- A three-year contract with Maritz Inc. for local and long distance voice services and a total upgrade of its core and edge data equipment, serving locations in 16 states, including New York, Massachusetts, Arizona, Florida and Virginia. Maritz is the world's largest source of integrated performance improvement, travel, and marketing research services.

(*see* http://www.sbc.com/Investor/Financial/Earning_Info/docs/2Q_04_IB_FINAL.pdf)

SBC currently faces additional hurdles in winning enterprise customers including: (1) as a relative newcomer in the nationwide enterprise market post-section 271 authorization, SBC missed the opportunity to bid on numerous contracts for enterprise customers in which the lengthy RFP process – typically anywhere from 12-18 months – was currently underway (SBC estimates that approximately 1/3 of all enterprise customers are in the life-cycle of the RFP process); and (2) due to these contracts, SBC is not even an option for most enterprise customers, at least until the later stages of their contract terms (SBC estimates that approximately 1/3 of enterprise customers are currently under contracts with two or more years remaining).

Other Facts Relevant to the Enterprise Market

- Based on a study by an outside consulting firm, SBC estimated at its 2003 analyst meeting/conference that the total nationwide enterprise business market was $99 billion of which SBC's share was approximately five percent (or $5 billion). With respect to SBC's share, approximately four percent was attributed to long distance and most of the remainder attributed to local voice and other services, such as CPE. Even after receiving section 271 approval in all of its in-region states, SBC has only won approximately $200M of incremental business in the nationwide enterprise business.

- Even including the new contracts it announced, SBC's second quarter revenue growth for the total wireline business market, which includes the enterprise market, was small – 0.4 percent year over year growth rate and 1.1 percent sequential growth rate.[2]

- Small/medium business lines: SBC voice business lines, including small/medium business lines, have been declining in the 200K-250K range for several quarters. (*See* the in-service numbers in the statistical profile located on the SBC website at http://www.sbc.com/gen/investor-relations?pid=1129).

- Enterprise market projections: SBC expects to generate $200 million of incremental revenue in 2004 from *all* new enterprise contracts signed during the year. This statistic only speaks to these new contracts and not overall growth in large business/enterprise revenues. (*See* SBC first quarter 2004 investor briefing at http://www.sbc.com/gen/investor-relations?pid=5540).

[2] *See* http://www.sbc.com/Investor/Financial/Earning_Info/docs/2Q_04_IB_FINAL.pdf.